



May Revision to the Proposed 2008–09 State Budget: Summary

Background

Each year in mid-May, the Governor introduces a “May Revision” to his State budget proposal for the upcoming budget year — in this case, fiscal year 2008–09 — which starts on July 1. The adjustments include more up-to-date revenue and expenditure estimates and more accurate caseload and workload projections for state programs. The May Revision also makes adjustments to current-year (2007–08) spending and may include new initiatives and adjustments to proposals that were presented in the original January Governor’s Budget.

Summary

The May Revision to the proposed 2008–09 State Budget is an improvement for higher education over the January budget proposal. The overall General Fund budget is balanced, based on the assumption of approximately \$12.6 billion in spending reductions and approximately \$11.7 billion in anticipated new revenues, including borrowing from special funds and other fund shifts. However, the 2008–09 budget is now balanced on assumptions that the California State Lottery will generate greater revenues and that the sales tax would be increased if the lottery changes don’t occur. The lottery proposal would be decided by the voters this coming November. The outcome of this vote will impact state budgets for 2008–09 and subsequent years.

While higher education is set to receive hundreds of millions of dollars in much-needed funding restorations in the revised 2008–09 budget proposal, the segments still face large deficits between their available revenues and their presumed levels of expenditures. CSU estimates its funding shortfall at \$288 million, with UC likely facing a similar gap. The budget backfills a more than \$200 million property tax shortfall for the community colleges and increases enrollment funding. In student aid, the Revision maintains the Governor’s January budget proposal to eliminate new awards for the Cal Grant Competitive program.

Given the cuts proposed in other program areas, particularly health services, higher education has been prioritized in the Revision. Still, the cumulative effects on public colleges and universities of increased operating costs, mostly flat state revenues, and ever-increasing student fee levels (partially offset by increases in grant aid) still jeopardize access to college for many students.

TABLE 1 May Revise Proposed State General Fund Expenditures for 2008-09
(dollars in thousands)

State Program Areas	January 2008 Proposed	May 2008 Revised	Dollar Change	Percent Change
K-12 Education	\$43,767,988	\$41,144,462	-\$2,623,526	-5.99%
Higher Education	12,831,621	11,757,648	-1,073,973	-8.37%
Health, Human Services	31,959,384	29,856,366	-2,103,018	-6.58%
Corrections, Rehabilitation	10,647,340	10,139,014	-508,326	-4.77%
Business, Trans., Housing	1,682,527	1,635,076	-47,451	-2.82%
Resources, Evniron.	1,839,247	1,711,806	-127,441	-6.93%
State, Consumer Serv.*	713,203	663,931	-49,272	-6.91%
General Government	-6,592,898	1,191,863	7,784,761	--
Leg., Judicial, Exec.	4,149,693	3,791,882	-357,811	-8.62%
TOTALS	\$100,998,105	\$101,892,048	\$893,943	0.89%

* Includes Labor and Workforce Development

NOTE: January totals are **not** reduced to reflect the proposed 10% unallocated reduction.

Source: California Department of Finance.

Revenues and Expenditures

The Revision estimates that current and budget year revenues are \$5.4 billion below the January budget projection. There has been some revenue recovery in the most recent month — as of April, year-to-date tax collections are \$738 million above the January forecast. However, the continued weakening of the real estate market, spiraling energy prices, and the sluggish economy continue to depress sales and corporate income tax receipts.

The Revision proposes \$144 billion in general-purpose fund spending for 2008–09, an increase of \$3.4 billion (2.4%) above the January budget of \$141 billion. Of this total, State General Fund expenditures are proposed to be \$102 billion, \$900 million higher than initially proposed for 2008–09 (Table 1).

To help balance the budget, the Revision contains a proposal to authorize the issuance of bonds backed by anticipated lottery revenues through a vehicle of securitization. The Governor also proposes to reform regulations governing the lottery to allow greater flexibility in operations with the goal of increasing lottery revenues. Under the securitization proposal, the first \$1.2 billion in annual lottery revenues would go to public education and the next \$5.1 billion would be allocated to the state General Fund for 2008–09.

If the lottery proposal is not implemented, the Governor proposes to trigger a temporary one-cent increase in the state sales tax to generate this \$5.1 billion. The Governor proposes to put an initiative on the November 2008 ballot to accomplish this change to the state lottery, along with the adoption of a budget trailer bill during the regular budget process to authorize the temporary increase in the sales tax.

For higher education, the Revision contains some targeted funding increases. Total general-purpose fund (student fees, lottery funds) state expenditure for California higher education for 2008–09 is estimated to be \$14.2 billion, or 9.9% of total state spending.

The revised higher education State General Fund spending of \$11.8 billion represents 11.5% of total State General Fund expenditures for the upcoming fiscal year. The revised budget also provides additional monies to CSU and UC to fund increased enrollments and to lower each system's proposed unallocated reduction (Table 2). These CSU and UC budget restorations are also proposed to limit fee increases to the 10% and 7.4%, respectively, recently adopted by these systems. Including student fee revenues and other State funds, the Revision funding proposals would provide CSU and UC with almost the same amount of state funds in 2008–09 as they each received in 2007–08.

The budget revision provides additional funding to the community colleges in both the current year and the budget year. For 2007–08, the revision reappropriates \$69 million of unused funds from earlier years and reflects \$6 million in fee revenues above initial estimates to help offset lower-than-anticipated property tax revenues to the system of \$75 million. The Revision proposes a \$236.2 million increase in funding for the system, \$167.2 million in ongoing Proposition 98 General Fund, and \$69 million in one-time monies.

Entities	January 2008 Proposed	May 2008 Revised	Dollar Change	Percent Change
CPEC	\$2,228	\$2,005	-\$223	-10.01%
UC	3,494,102	3,260,748	-233,354	-6.68%
Hastings	11,239	10,115	-1,124	-10.00%
CSU	3,185,988	2,970,706	-215,282	-6.76%
CCC ¹	6,596,539	6,589,046	-7,493	-0.11%
CSAC	892,736	581,790	-310,946	-34.83%
Other ²	<u>725,922</u>	<u>709,188</u>	<u>-16,734</u>	<u>-2.31%</u>
Total	\$14,908,754	\$14,123,598	-\$785,156	-5.27%

1. CCC totals include local property tax revenues
2. General Obligation Bonds and retirement costs.
NOTE: January totals are not reduced to reflect the proposed 10% unallocated reduction.
Source: California Department of Finance.

The community colleges' budget year highlights are detailed below:

- \$35.5 million in additional apportionments funding, resulting in an overall 1.67% increase in these funds (20,000 additional students).
- \$572,000 to restore the funding for the Foster Care Training program; these funds will maintain \$700,000 in federal matching funds.
- \$138.7 million in State General Funds to backfill for lower estimated property tax revenues.
- \$6.4 million reduction in State General Funds due to increases in estimated anticipated student fee revenue, which offsets State funds in the community colleges' funding formula.
- \$717,000 increase for the Board of Governor's Fee Waiver program administrative costs.
- Budget Bill language to provide colleges flexibility in two groups of categorical programs. This would allow colleges to transfer up to 20% of funds between three incentive programs for part-time faculty and staff and between five student services programs.
- \$2.7 million in reimbursements from a proposed interagency agreement with the California Department of Corrections and Rehabilitation to provide training for prison staff who provide rehabilitation services.

The largest dollar change proposed for higher education is the shifting of \$223 million of California Student Aid Commission Cal Grant expenditures from General Fund to Temporary Assistance for Needy Family (TANF) federal funds available to the Department of Social Services. This shift is the biggest single component of a \$450 million exchange of TANF funds for General Funds. Using TANF-qualifying programs allows California to meet federal "maintenance of effort" requirements for the program without increasing overall state General Fund spending.

The Revision also assumes that the \$500 million from the proposed sale of EdFund will not occur until the 2009–10 fiscal year. CSAC's revised budget includes other changes in recognition of this new assumption, including restoring some of EdFund's operational capacity. The revised budget restores 24 EdFund positions and \$779 million in continuously appropriated Student Loan Operating Fund expenditures and Federal Student Loan Reserve Fund expenditures.

K–12 Education

The May Revision withdraws the January budget proposal to suspend the Proposition 98 funding guarantee. It proposes an additional \$1.5 billion in State General Funds above the January proposal to fully fund the Proposition 98 minimum funding guarantee. Even with this change, K-12 funding would still be reduced by more than \$3 billion below anticipated levels, because recent year reductions in State revenues have lowered the amount of money needed to meet the minimum funding guarantee.

The Revision proposes an increase to \$593 million the amount for Public Transportation Funds available for reimbursement for K–12 Home-to-School Transportation Program. These funds will be used to reimburse the General Fund for transportation costs, including Special Education transportation. The Revision also proposes to shift \$223 million from K–12 deferred maintenance to help restore funding for special education. The proposal now allocates \$100 million for the Emergency Repair Program established, per the Williams settlement, and proposes to eliminate the local matching requirement for the deferred maintenance program for the 2008–09 fiscal year.

Other Government Programs

Health and Human Services – Reductions of \$627 million below the January budget level are proposed, including \$175 million in the Medi-Cal program. Including actions taken during the February legislative special session, health programs are projected to account for nearly \$3 billion of all of the reductions proposed for the 2008-09 State Budget.

Resources – Removes the January budget proposal to cut funding for the Department of Parks and Recreation by \$13.3 million by closing 48 state parks and reducing the number of lifeguards at some state beaches. The revised plan would increase state park fees to help offset the lost savings. The revised budget continues a January budget proposal to create an “Emergency Response Initiative” to improve how the State responds to emergencies and disasters. This initiative would be funded through a surcharge imposed on residential and commercial property insurance policies based on the likelihood of risk due to earthquakes, fires, or floods.

Transportation – The proposal increases spending by \$126 million in non-General Fund monies. The revised budget replaces State General Funds with \$828 million in public transportation funds for related programs in K-12 and for debt service on transportation bonds. This action is partially the result of increases in “spillover” gasoline sales tax revenues, resulting from higher gasoline prices.

Corrections and Rehabilitation – The Revision removes the January budget proposal to release 22,000 non-violent inmates prior to their scheduled release dates. The Revision estimates that lower than expected inmate population and other factors will generate \$300 million in savings. It also supports legislation authorizing \$6 billion in lease revenue bonds for inmate medical and mental health care needs, per the plan put forth by the federal court receiver.

The Governor also calls for the establishment of a bipartisan tax reform commission to modernize the state’s taxing system, to make state revenues less volatile in the future. A similar proposal has been made by incoming Assembly Speaker Karen Bass.

Next Steps

Through the end of May, Assembly and Senate budget subcommittees will make decisions on the May Revision proposal and forward their final reports to the full Assembly and Senate Budget committees. Each House will vote upon their budget reports, and differences will be reconciled in a Budget Conference Committee, which is required to complete its budget deliberations by June 15, 2008. Each House must approve the final Conference Committee product, which is then forwarded to the Governor. The Governor accepts or rejects (“blue pencils”) appropriations in the budget before signing it into law by the constitutional deadline of July 1, 2008.

Additional budget information from the Department of Finance is available at:

www.ebudget.ca.gov/Revised/BudgetSummary/BSS/BSS.html